



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MARSHALL COUNTY  
SHERIFF'S SETTLEMENT - 1999 TAXES**

**March 31, 2000**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
MARSHALL COUNTY  
SHERIFF'S SETTLEMENT - 1999 TAXES**

**March 31, 2000**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 1999 Taxes for Marshall County Sheriff as of March 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

Net tax yield for 1999 taxes was \$10,490,787. The Sheriff distributed taxes of \$10,077,117 to the districts for 2000 Taxes. Taxes of \$4 are due to the districts from the Sheriff and refunds of \$510 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$7,502,363 And Enter Into A Written Agreement To Protect Deposits



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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Mike Miller, Marshall County Judge/Executive  
Honorable Terry Anderson, Marshall County Sheriff  
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the Marshall County Sheriff's Settlement - 1999 Taxes as of March 31, 2000. This tax settlement is the responsibility of the Marshall County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Account, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Marshall County Sheriff's taxes charged, credited, and paid as of March 31, 2000, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Mike Miller, Marshall County Judge/Executive  
Honorable Terry Anderson, Marshall County Sheriff  
Members of the Marshall County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 14, 2001, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present comments and recommendations, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral Of \$7,502,363 And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 14, 2001



MARSHALL COUNTY  
TERRY ANDERSON, SHERIFF  
SHERIFF'S SETTLEMENT - 1999 TAXES

March 31, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 959,595	\$ 2,697,239	\$ 2,926,289	\$ 1,406,139
Tangible Personal Property	221,619	341,481	501,902	1,412,943
Intangible Personal Property				118,455
Franchise Corporation	60,322	130,296	144,789	
Increased Through Erroneous Assessments	3,041	7,668	8,046	10,317
Penalties	9,550	26,801	28,565	14,916
Adjusted to Sheriff's Receipt	<u>2,666</u>	<u>6,713</u>	<u>3,928</u>	<u>3,885</u>
Gross Chargeable to Sheriff	<u>\$ 1,256,793</u>	<u>\$ 3,210,198</u>	<u>\$ 3,613,519</u>	<u>\$ 2,966,655</u>
<u>Credits</u>				
Discounts	\$ 16,386	\$ 41,928	\$ 47,394	\$ 45,670
Exonerations	15,481	38,254	43,518	24,996
Delinquents:				
Real Estate	29,362	85,548	89,538	43,025
Tangible Personal Property	2,256	4,690	5,109	6,939
Intangible Personal Property				16,284
Total Credits	<u>\$ 63,485</u>	<u>\$ 170,420</u>	<u>\$ 185,559</u>	<u>\$ 136,914</u>
Net Tax Yield	\$ 1,193,308	\$ 3,039,778	\$ 3,427,960	\$ 2,829,741
Less: Commissions *	<u>51,003</u>	<u>111,740</u>	<u>123,407</u>	<u>120,551</u>
Net Taxes Due	\$ 1,142,305	\$ 2,928,038	\$ 3,304,553	\$ 2,709,190
Taxes Paid	1,141,467	2,925,632	3,302,273	2,707,745
Refunds (Current and Prior Year)	<u>873</u>	<u>2,518</u>	<u>2,587</u>	<u>1,497</u>
Refunds Due Sheriff as of Completion of Fieldwork	<u>\$ (35)</u>	<u>** \$ (112)</u>	<u>\$ (307)</u>	<u>\$ (52)</u>

\* and \*\* See Page 4

MARSHALL COUNTY  
TERRY ANDERSON, SHERIFF  
SHERIFF'S SETTLEMENT - 1999 TAXES  
March 31, 2000  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	6,515,892
3.6% on	\$	3,427,960
1% on	\$	536,935

\*\* Special Taxing Districts:

Library District	\$	(11)
Health District		(18)
Extension District		(4)
Soil Conservation		1
Hospital		(12)
Refuse		(35)
Gilbertsville #5 Fire District		1
East Marshall #6 Fire District		1
Possum Trot-Sharpe #7 Fire District		1
Palma-Briensburg-Draffenville #8 Fire District		<u>(36)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>(112)</u></u>

The accompanying notes are an integral part of the financial statement.

MARSHALL COUNTY  
NOTES TO FINANCIAL STATEMENT

March 31, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 10, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$7,502,363 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 10, 1999.

	<u>Bank Balance</u>
Federal Deposit Insurance Corporation (FDIC)	\$100,000
Uncollateralized and Uninsured	<u>7,502,363</u>
Total	<u><u>\$7,602,363</u></u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 29, 1999 through March 31, 2000.

Note 4. Interest Income

The Marshall County Sheriff earned \$6,278 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Currently Being Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1999 taxes, the Sheriff had no unrefundable duplicate payments and unexplained receipts. As of March 31, 2000, the Sheriff had an ending bank balance of \$2,808 in his tax escrow account.

COMMENT AND RECOMMENDATION



MARSHALL COUNTY  
TERRY ANDERSON, SHERIFF  
COMMENT AND RECOMMENDATION

March 31, 2000

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral Of \$7,502,363 And Enter Into A Written Agreement To Protect Deposits

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On December 10, 1999, \$7,502,363 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Management's Response:*

*Bank has failed to provide confirmation.*

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None

PRIOR YEAR:

None

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Marshall County Sheriff's Settlement - 1999 Taxes as of March 31, 2000, and have issued our report thereon dated May 14, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Marshall County Sheriff's Settlement - 1999 Taxes as of March 31, 2000 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comment and recommendation.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral Of \$7,502,363 And Enter Into A Written Agreement To Protect Deposits

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marshall County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 14, 2001

